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OFFICIAL FILE

April 3, 2007 **ILLINOIS COMMERCE COMMISSION**

ORIGINAL

Elizabeth A. Rolando
Chief Clerk
Illinois Commerce Commission
527 East Capital Avenue
Springfield, Illinois 62794-9280

Re: Docket 06-0027 Report on the Competitiveness of the Telecommunications Market in Illinois MSA-1 and Semi-Annual MSA-1 Subscribership Report

Dear Ms. Rolando:

The Commission in its Order in Docket 06-0027 directs AT&T Illinois to file an annual report on the competitiveness of the residential telecommunications market in MSA and a semi-annual report of the number of customers subscribing to each of AT&T Illinois' service.¹

Enclosed are Public and Proprietary originals and two copies of the Illinois Bell Telephone Company ("AT&T Illinois") Report on the Competitiveness of the Residential Telecommunications Market in Illinois MSA-1 and semi-annual report of the number of customers subscribing to each of AT&T Illinois' service.

These reports are confidential and proprietary and have been placed in a proprietary envelope. A public version of the Report on the Competitiveness of the Telecommunications Market in Illinois MSA-1 is also being filed.

Any questions and correspondence regarding this filing should be directed to W. Karl Wardin, Executive Director, Local Competition, who may be reached at:

AT&T Illinois
225 West Randolph Street, 27C
Chicago, Illinois 60606
Tel. No.: 312 551-9144 Fax No.: 312 727-3722

Please acknowledge receipt by returning the extra copy of this letter.

Sincerely,
W. Karl Wardin (SB)
W. Karl Wardin
Attachments

¹ Illinois Commerce Commission v Illinois Bell Telephone Company, Investigation of specific tariffs declaring certain services to be competitive services, Illinois Commerce Commission Docket No. 06-0027 (August 30, 2006) at pages 98, 122 and 123.

ICC Docket No. 06-0027

**AT&T Illinois Report on the Competitiveness of the
Residential Telecommunications Market in Illinois MSA-1**

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**REPORT ON THE COMPETITIVENESS OF THE RESIDENTIAL
TELECOMMUNICATIONS MARKET IN ILLINOIS MSA-1**

This Confidential and Proprietary report is filed pursuant to the Commission's Order in Docket No. 06-0027. The Order (p. 98) directs AT&T Illinois to file a report on an annual basis--beginning with information as of December 31, 2006--that will be used in analyzing the competitiveness of the telecommunications market in MSA-1 ("Chicago LATA"), including information regarding competition for the provision of local service from CLECs, wireless carriers, VoIP providers and other alternative technologies. The Order states that this information should include, but not necessarily be limited to, an updated version of the Schedules WKW-5 and WKW-9, attached to AT&T Exhibit 1.0 in docket 06-0027.

**OVERVIEW OF THE COMPETITIVE LANDSCAPE FOR RESIDENTIAL LOCAL
EXCHANGE SERVICE IN ILLINOIS AND THE CHICAGO LATA.**

AT&T Illinois continues to face considerable competition from a variety of telecommunications service providers which provide basic local exchange service or its functional equivalent to residential customers in the Chicago LATA. These competitors fall into three general groups: (1) Traditional wireline competitors, consisting of 73 competitive local exchange carriers ("CLECs"), including Comcast, RCN, TDS MetroCom, MCI, McLeodUSA, Sage, Trinsic¹, WOW! and Mediacom²; (2) independent Voice over Internet Protocol ("VoIP") providers, such as Vonage, Lingo, VoiceWing, SunRocket, Packet8, Earthlink trueVoice, etc.; and (3) Wireless carriers, such as Verizon, US Cellular, T-Mobile, Cingular (AT&T), Sprint/Nextel, Virgin Mobile, TracPhone, Illinois Valley Cellular, etc..

AT&T Illinois' residential wireline service has been significantly impacted by competition. Between January 1, 2001 and December 31, 2006, the number of residential lines served by AT&T Illinois in the Chicago LATA dropped by more than 1 million, a 32% decrease. During the same time period AT&T Illinois lost more than ***BEGIN PROPRIETARY END PROPRIETARY*** primary residential access lines, about a ***BEGIN PROPRIETARY END PROPRIETARY*** decrease (see Table 1 and Table 2 below). In 2006, AT&T (both AT&T IL and AT&T CLEC) lost about ***BEGIN PROPRIETARY (or) END PROPRIETARY*** of its residential lines --almost 12,000 per month (see

¹ For a complete list of the 73 CLECs who are providing residential local exchange service in the Chicago LATA see Schedule WKW-9.

² Wide Open West and Mediacom are cable companies that offer telephone services to its customers. They receive their numbering resources from Sprint.

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Table 2A below). Of the lines lost in 2006, more than ***BEGIN PROPRIETARY
END PROPRIETARY*** were primary residential lines. At the same time, the number of residential lines served by CLECs and independent VoIP providers not affiliated with AT&T Illinois increased to over 576,000, an increase of about 75,000 lines (or about 15% increase) over end of year 2005 (see Schedule WKW-5 as of 12-31-06). The majority of the new CLEC residential lines added were carriers which own their own switches. This means that at least ***BEGIN PROPRIETARY
END PROPRIETARY*** lines (***BEGIN PROPRIETARY
END PROPRIETARY*** primary lines less CLEC and independent VoIP adds), plus any growth in the Chicago LATA residential market, is not captured in the figures presented in this report. Therefore, as detailed in this report, the use of residential alternative communications services, in the Chicago LATA, is understated and conservative.

Furthermore, people are increasingly using their wireless phones as substitutes for wireline service. The percentage of households in the Chicago LATA which have "cut-the-cord" (i.e., no longer take wireline service and rely exclusively on wireless phones) is conservatively estimated to be 9.3%³. A nationwide survey by The Yankee Group shows that, as of 2006, consumers who have wireless phones make 51% of their local calls and 68%⁴ of their long distance calls using their wireless service from inside their home. These percentages have continued to grow each year. A recent survey of customers in the Chicago LATA shows that 20.7% of all residential wireless customers do not have any wireline connection in their home⁵. The survey further shows that, even among those wireless users who still subscribe to traditional wireline telephone service, 28.8% use wireless phones as their primary phones to make and receive calls at home.

AT&T Illinois' annual switched access minutes of use, since 2000, have dropped by about 17 billion minutes, over 52%. During the same time period, wireless minutes, nationally, have increased by over 800% (see Table 4 and 5 below).

In sum, residential consumers are not only choosing CLECs for their communications needs, but are also using wireless and independent VoIP providers as substitutes for traditional wireline services to meet their local voice communications.

Analysis and Key Findings

The focus of the analysis in this Report is on the extent to which residential Basic Local Exchange Service (BLES) is available in the Chicago LATA from alternative communications companies. CLECs are carriers certificated by the

³ See Wireless section below.

⁴ Yankee Group, One in Seven US Households Say "No Thanks" to Wireline Phone Service in 2010, December 2006, at page 4.

⁵ See Analysys survey of Local Measured Service Customers in MSA-I at page A-3

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Commission to provide local exchange service and which provide such service on a wireline basis through the public switched telephone network. Research was performed to determine the number of such carriers and the number and percentage of residential local exchange customers served by those carriers in the Chicago LATA. An analysis also considered the impact of services being provided by wireless carriers and non-CLEC independent VoIP providers.

Analysis of the data produced the following key findings:

- As of December 31, 2006 there currently are 73 CLECs providing basic local exchange service to residential customers in the Chicago LATA. These include 6 CLECs that were not providing residential service in the Chicago LATA on December 31, 2005.
- As of December 31, 2006, CLECs and Independent VoIP providers have captured 19.4% of the residential local exchange market in the Chicago LATA, compared to approximately 16.4% as of December 31, 2005. This percentage rises to about 27% when wireless is included.
- ***BEGIN PROPRIETARY END PROPRIETARY*** of CLEC residential lines use CLEC-owned switching and ***BEGIN PROPRIETARY END PROPRIETARY*** of CLEC lines use both CLEC-owned loops and CLEC switching.
- Nationally, wireless minutes have increased over 800% since 2000 and consumers with wireless service make 51% of their local calls and 68% of their long distance calls using their wireless service from their home.
- As a conservative estimate, 9.3% of the households in the Chicago LATA have "cut the cord", i.e., they do not have a wireline phone connection within the home and rely exclusively on wireless phones to make and receive calls within the home.
- There are more wireless phones in Illinois than wireline phones.
- Recently, Independent VoIP providers, like Vonage and Earthlink trueVoice, began offering number portability - which enhances their position in the residential market.
- During 2006, Independent VoIP residential E-911 listings in the Chicago LATA grew by ***BEGIN PROPRIETARY⁶ END PROPRIETARY***.

CLEC and Wireless Competition Generally

⁶ This is based on 2006 versus 2005 E-911 data for Focal Communications, Global Crossing, Level 3, WorldCom and XO.

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Based on the information shown in the attached Updated Schedule WKW-5, AT&T Illinois conservatively estimates that CLECs (including cable companies), Independent VoIP providers and wireless competitors serve approximately 26.9% of the residence lines in AT&T Illinois' service territory in the Chicago LATA. This figure is comprised of three components: (1) ***BEGIN PROPRIETARY END PROPRIETARY*** represents residential lines served by CLECs, (2) ***BEGIN PROPRIETARY END PROPRIETARY*** represents Independent VoIP providers with residential E-911 listings⁷ and (3) 9.3% represents residential wireless customers who have "cut the cord", i.e., customers who rely exclusively on wireless service for their network access and local usage and have no wireline service in their homes.⁸

The CLEC and Independent VoIP provider percentage ("CLEC/VoIP") was calculated by first determining the total number of residential lines in the Chicago LATA served by CLECs/VoIP providers that are unaffiliated with AT&T Illinois.⁹ This figure was derived by adding the number of lines served by UNE-P, LWC and resale arrangements together with the number of residential telephone numbers submitted by CLECs/VoIP providers for inclusion in the E9-1-1 database. The E9-1-1 database reflects CLEC/VoIP lines used to make outgoing calls. It will reflect some, but not all, lines provisioned through UNE-Ls. It will also reflect some, but not all, lines provisioned using non-AT&T Illinois loops. While conservative, it provides a reasonable approximation of the number of CLEC/ VoIP lines served by means other than resale, LWC or UNE-P. Next, the number of AT&T Illinois' retail lines, both AT&T IL and AT&T CLEC, were added to arrive at the total number of lines in the market. Finally, the total CLEC/ VoIP lines were divided by the total number of lines to arrive at the CLEC/VoIP market share of 19.4%. This is the same procedure that was used to develop Schedule WKW-5 in AT&T Exhibit 1.0 in Docket 06-0027.

The CLEC/VoIP market share for residential BLES of 19.4% as of December 31, 2006 represents an 11% increase for the from the 16.4% market share as of

⁷ Independent VoIP providers receive numbering and E-911 capabilities from CLECs. For example, Vonage receives its E-911 from Level 3 and numbering from Focal (now a Level 3 company) see <http://www.level3.com/newsroom/pressreleases/2005/20050919a.html>; XO offers wholesale services to independent VoIP providers see XO press release at <http://www.xo.com/news/290.html>; Global Crossing, offers wholesale services to cable companies and independent VoIP providers see http://www.globalcrossing.com/carrier/carrier_esp.asp; WorldCom provide numbering resources to independent VoIP providers see <http://www.verizonbusiness.com/about/news/releases/2005.xml?newsid=16011&mode=long&lang=en&width=530&root=/about/news/releases/&subroot=2005.xml>.

⁸ The percentage of residential wireless-only lines was estimated by dividing the estimated wireless customers as of 12-31-05 (303,292) by the total CLEC, Independent VoIP, AT&T and wireless-only lines. Due to the formula, the combined percentage of wireless and CLEC market percentages is not the simple sum ***BEGIN PROPRIETARY END PROPRIETARY*** plus 9.3%.

⁹ For the purpose of determining the percentage of lines that CLECs serve in the Chicago LATA, all of the lines served by the CLECs that were subsidiaries of pre-merger AT&T before that holding company's merger with SBC Communications were treated as if they were lines provided by AT&T Illinois.

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December 31, 2005. This increase in CLEC/VoIP market share, along with the competition from wireless explains in large part why AT&T (both AT&T Illinois and AT&T CLEC) experienced residential line losses of about ***BEGIN PROPRIETARY END PROPRIETARY*** lines during 2006.¹⁰

The 9.3% estimate for those households who have cut the cord does not fully capture the extent to which AT&T Illinois faces competition from wireless service alternatives for the provision of residential BLES. For example, this percentage does not take into account the extent to which customers who continue to maintain an access line from AT&T Illinois use their wireless phones, rather than their landline phones, to make local calls. The results of the Chicago LATA customer survey filed with the Commission on March 1, 2007, pursuant to the Order in Docket 06-0027, shows that, for wireless users who still subscribe to traditional wireline telephone service, 28.8 percent use wireless phones as their primary home phones to make and receive calls and another 32.7 percent frequently use both their wireless phones and their traditional landline phones in their homes to make and receive calls. These and other results confirm what other studies performed by the FCC and other independent sources show, i.e., that wireless service is considered by customers, and is increasingly being used by customers, as a substitute for both wireline connections and wireline usage

CLEC FACILITIES

As shown in the attached Updated Schedule WKW-9, for the Chicago LATA, as of December 31, 2006, approximately ***BEGIN PROPRIETARY END PROPRIETARY*** of the residential access lines served by CLECs were provisioned entirely over CLEC-owned facilities, including CLEC-owned switches and loop facilities. Another ***BEGIN PROPRIETARY END PROPRIETARY*** were provisioned using CLEC-owned switches and AT&T Illinois-provided UNE loops. In total, therefore, ***BEGIN PROPRIETARY END PROPRIETARY*** of the CLEC residence lines are served using CLEC-owned facilities. By comparison, at December 31, 2005, ***BEGIN PROPRIETARY END PROPRIETARY*** of the CLEC/VoIP residence lines were served using either CLEC-owned facilities or broadband facilities in conjunction with independent VoIP providers. This increase is largely due to ***BEGIN PROPRIETARY END PROPRIETARY***

As of December 31, 2006, Comcast has captured ***BEGIN PROPRIETARY END PROPRIETARY percent of the Chicago LATA wireline residential lines, an increase over its ***BEGIN PROPRIETARY END PROPRIETARY of the residence wireline marketshare at December 31, 2005.¹¹ RCN, WOW! and Mediacom are also offering voice service to their residential customers. For

¹⁰ See Table 2A.

¹¹ See Attachment 1 (Schedule WKW-5 Updated) and Attachment 2 (Schedule WKW-9 Updated).

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example Mediacom now offers residential service to customers residing in Grant Park, Watseka, Dwight and Ottawa¹².

Of the remaining CLEC residence lines, as of December 31, 2006, ***BEGIN PROPRIETARY END PROPRIETARY*** were provisioned over UNE-P and ***BEGIN PROPRIETARY END PROPRIETARY*** were provisioned using Local Wholesale Complete ("LWC"), a commercial substitute for UNE-P. Only ***BEGIN PROPRIETARY END PROPRIETARY*** of the CLEC-served residential lines are provisioned through the resale of AT&T Illinois services.

Independent Voice over Internet Protocol (VoIP) Providers

Residential Independent VoIP providers include Vonage, Lingo, Earthlink trueVoice, Sun Rocket, Broadvox Direct, Packet8, Verizon VoiceWing, etc.. Companies such as these are providing low-cost, high-quality voice service to residential customers using *packet* – not circuit – switches, and *broadband* – not narrowband – local transport. These competitors sell voice service not as a bundle of switching and transport, but as a discrete service that runs on top of broadband data connections sold separately by third parties. It is estimated that over ***BEGIN PROPRIETARY END PROPRIETARY*** of residential consumers in the Chicago LATA have already abandoned circuit-switched service entirely in favor of independent VoIP providers and the number is rising. Nationally, it is estimated that 5% of the 40% of residential customers who have broadband service subscribe to an independent VoIP provider. This would equal about 2% (5% * 40%) of the households. In Illinois, the figure is conservatively estimated at ***BEGIN PROPRIETARY . END PROPRIETARY***

Since 2001, not only has VoIP been introduced into the market but it has become both feasible and economical for independent VoIP providers to provide voice service to any residential customer in the Chicago LATA who has access to a broadband connection. The main prerequisite for providing VoIP service is the broadband connection itself. Over 97 percent of Illinois households with cable television can now obtain a broadband internet connection from a provider *other than* their incumbent local telephone company.¹³ Cable operators have committed to a policy of ensuring that consumers will be able to connect to independent VoIP providers just as easily as they may browse the Internet.¹⁴

¹² See, *Mediacom's website*.

¹³ Id. Table 14.

¹⁴ See D. Jackson, *NCTA: Cable Won't Get in Vonage's Way*, TelephonyOnline (Dec. 19, 2003) ("Vonage will not be stopped by the cable industry from providing its phone service, even though it competes directly with many cable operators in this emerging market, according to Robert Sachs, president and CEO of the National Cable & Telecommunications Association. This policy is a reflection of the 'network neutrality' philosophy adopted by the cable industry that allows broadband users to access any Web site and use any DOCSIS-approved equipment, Sachs said. . . . For a cable company to strip out voice bits of a Vonage

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Riding on this competitive infrastructure, a wide range of competitive providers are deploying and marketing VoIP services in the Chicago LATA. .

Many new companies that do not offer traditional circuit switched voice service at all have also begun providing VoIP services. These VoIP-based providers all offer service nationwide, and the larger providers now offer local telephone numbers and number portability in virtually all the markets they serve. Vonage, the largest of the new providers, currently offers local number portability for residential customers in the Chicago LATA. As of December 31, 2006, Vonage served over 2,200,000 subscribers, and is adding "more than 50,000 lines per month to its network."¹⁵ Vonage recently sent customers in the Chicago LATA mailers that indicated that customers could keep their existing number if they switched.¹⁶ The ability to offer number portability enhances Vonage's appeal to residential customers.

Wireless Competition

In the Chicago LATA, the major wireless carriers are Verizon, Cingular (AT&T), T-Mobile, Sprint Nextel, US Cellular and Illinois Valley Cellular. There are also many companies that provide service through wholesale arrangements such as Virgin Mobile, Firefly, Disney Mobile and TracPhone.

Residential competition from wireless providers has had an impact on AT&T Illinois' share of residential lines in the Chicago LATA. Table 1, below, details AT&T Illinois' residential access lines in the Chicago LATA. It shows that over the last 6 years, AT&T Illinois has lost about 1.1 million residential access lines in the Chicago LATA. This represents about a 32% reduction since 2001 and is equivalent to about 46% of AT&T Illinois' current residential access lines. These figures were obtained from the FCC's Automated Reporting Management Information System (ARMIS) Report 43-08 that AT&T Illinois files annually with the FCC.

Table 2, below, details the number of AT&T Illinois' primary residential access lines in the Chicago LATA. It shows AT&T Illinois has lost over ***BEGIN PROPRIETARY END PROPRIETARY*** customers since 2001. Table 2A, below, details the number of AT&T Illinois and AT&T CLEC network access lines

transmission would represent a departure from this philosophy, and the industry has 'no intention' to do that, he said."); see also AT&T News Release, *AT&T To Offer AT&T CallVantage Service with Adelphia High-Speed Internet Access* (Sept. 1, 2004) (announcing an agreement under which "Adelphia will now serve as AT&T's preferred broadband solution for customers wishing to sign up for AT&T CallVantage Service in areas served by Adelphia.").

¹⁵ See <http://www.vonage.com/corporate/> for number of subscribers.

¹⁶ See Attachment 3.

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in the Chicago LATA. It shows that AT&T lost about ***BEGIN PROPRIETARY
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AT&T Illinois' residential line loss is attributable to wireline (including cable), wireless, and independent VoIP provider competition. The increased number of wireless-only users in the Chicago LATA has contributed significantly to AT&T Illinois' residential line loss.

Table 1

AT&T Illinois Chicago LATA Residential Access Line Changes (Dec 2000 - Dec 2006)					
Year End	AT&T IL Chicago LATA Residential Access Lines	Annual Change	Cumulative Change	Annual % Change	Cumulative % Change
2000	3,372,979				
2001	3,048,504	-324,475	-324,475	-9.6%	-9.6%
2002	2,721,082	-327,422	-651,897	-10.7%	-19.3%
2003	2,535,531	-185,551	-837,448	-6.8%	-24.8%
2004	2,422,559	-112,972	-950,420	-4.5%	-28.2%
2005	2,383,477	-39,082	-989,502	-1.6%	-29.3%
2006	2,304,140	-79,337	-1,068,839	-3.3%	-31.7%

Source: 2001 to 2006, ARMIS Report 43-08, TABLE III - ACCESS LINES IN SERVICE BY CUSTOMER.

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Source: AT&T Illinois records

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In the Chicago market area, which includes the Chicago LATA plus Gary, Indiana and Kenosha, Wisconsin, 74% of the population had wireless service as of the end of 2005, compared to 49% at the end of 2001.¹⁷ There are about 2.74 persons per household in the Chicago LATA and, therefore, on average, there are about 2 wireless subscribers per household in the Chicago LATA. In its Eleventh Annual Report on wireless competition, the FCC stated that the national penetration rate for wireless service was about 71 percent.¹⁸ Therefore, the Chicago LATA now has a greater penetration of wireless subscribers than the country as a whole, compared to a couple of years ago, when the Chicago LATA wireless subscribership trailed national averages.

While exact percentages are difficult to determine, wireless substitution has grown significantly in recent years. Many people are “cutting the cord” and some have never had landline service. In a report published in December, 2006, the Yankee Group¹⁹ estimated that 12 percent of all wireless households have cut the cord and are wireless only. According to the 2006 National Health Interview Survey (NHIS), in the first half of 2006, 9.6 percent of adults lived in households with only wireless phones, up from 6.7 percent in the first half of 2005, and 4.4 percent in the first half of 2004.²⁰ Another survey from early 2006 found that 12

¹⁷ *Eleventh Report, Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993; Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, WT Docket No. 05-173, released September 29, 2006 (FCC Eleventh Report) at Table III and the *Seventh Report, Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993; Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, WT Docket No. 02-179, released July 3, 2002 at Table III.

¹⁸ FCC Eleventh Report, at page 71.

¹⁹ One in Seven US Households say “No Thanks” to Wireline Phone Service in 2010, Yankee Group, (Yankee Group) December 2006 at Page 2.

²⁰ Stephen J. Blumberg, Ph.D. and Julian V. Luke, *Wireless Substitution: Preliminary Data from the 2005 National Health Interview Survey*, National Center for Health Statistics, Centers for Disease Control, available at <<http://www.cdc.gov/nchs/products/pubs/pubd/hestats/wireless2006/wireless2006.htm>> (visited February 27, 2006).

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percent of cellphone users use cellphones as their only phone.²¹ A fourth survey from October 2005 found that nearly one in five consumers who recently purchased mobile phones said they had no landline service.²² A recent In-Stat survey found that 18.9 percent of the adults have cut the cord.²³

The Chicago LATA is no different and probably has higher percentage of cord cutters than the national average. In a recent survey of customers in the Chicago LATA, 20.7% percent stated that they do not purchase wireline telephone service.²⁴ A Telephia Total Communications Survey, conducted in the second quarter of 2006, states that 8.3 percent of the households in the Chicago metropolitan area have cut the cord.²⁵ To be conservative this report uses the same estimate of wireless subscribers in total that was used in its December 31, 2005 estimate. The percentage of wireless-only was calculated by dividing the end of year 2005 wireless-only total by the summation of all lines (CLEC lines, AT&T CLEC lines, AT&T IL lines and end of year 2005 wireless only lines). Based on this analysis, Updated Schedule WKW-5 includes the same number of wireless only lines as was estimated for December 31, 2005. That number represents 9.3 percent of the total number of residence lines in the Chicago LATA as of December 31, 2006.

The wireless business in Illinois has been very successful. Growth rates have averaged above double digits over the last six years. Table 3 details the wireless growth since year end 1999. The 143% growth in wireless service is in stark contrast to the 32% decline in AT&T Illinois residential lines. In Illinois, at the end of 2006, there were 3.4 times more people with wireless service than there were AT&T Illinois residential lines (9,540,120 wireless subscribers and 2,793,346 AT&T Illinois residential lines).

²¹ Li Yuan, *More U.S. Households Are Ditching Landline Phones for Wireless*, WALL STREET JOURNAL, Mar. 31, 2006, at A12 (citing a survey by the NPD Group). Another 42 percent said that they also had a landline phone, but they used their cellphones "most." Only 43 percent said they still used their landline phones as the primary phone. *Id.*

²² *Nearly One in Five Wireless Service Buyers Report No Landline Service, Survey Says*, TRDAILY, Dec. 6, 2005 (citing a survey by the Consumer Electronics Association).

²³ David Chamberlain and Jill Meyers, *Profiles of Wireless-only Mobile Users: The Cord Cutters*, In-Stat November 6, 2006.

²⁴ See Survey of Local Measured Use Customers Page A-2. Filed on March 1, 2007 pursuant to the Commission's Order in Docket 06-0027.

²⁵ Telephia survey available at http://www.telephia.com/html/documents/TotalCommunications_000.pdf (visited February 20, 2007).

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Table 3

Illinois Wireless Telephone Subscribers (1999 – 2006)					
Year End	Illinois Wireless Users	Annual Change	Cumulative Change	Annual % Change	Cumulative % Change
1999	3,922,482				
2000	5,143,767	1,221,285	1,221,285	31.1%	31.1%
2001	5,631,172	487,405	1,708,690	9.5%	43.6%
2002	6,476,683	845,511	2,554,201	15.0%	65.1%
2003	7,183,989	707,306	3,261,507	10.9%	83.1%
2004	8,075,938	891,949	4,153,456	12.4%	105.9%
2005	9,026,588	950,650	5,104,106	11.8%	130.1%
2006	9,540,120	513,532	5,617,638	11.4%	143.2%

Source: FCC, Local Telephone Competition: Status as of June 30, 2006, released January 2007. The 2006 Annual Change percentage was adjusted to reflect a full year.

Comparing AT&T Illinois' minutes to the wireless industry minutes and revenues provides some interesting observations. Switched access minutes are the originating and terminating minutes of a long distance call. Under the FCC's rules, when a person makes a similar call using a cell phone those calls and minutes to and from the wireless phone are not counted as switched access even if the person is calling to or receiving a call from a AT&T Illinois residential wireline customer. AT&T Illinois' switched access minutes are listed in Table 4 and Table 4A. Table 4 includes long distance minutes where both ends of the call stay in the state (e.g. Chicago to Springfield) and also those calls where one end of the call is in another state (e.g. Chicago to Milwaukee). Table 4 shows that, since the end of 2000, AT&T Illinois' total switched access minutes have dropped over 52% while during the same time period AT&T Illinois' Chicago LATA residential lines dropped 32% (see Table 1). Table 4A shows that, since the end of 2000, AT&T Illinois' intrastate switched access minutes (*i.e.*, where both ends of the long distance call are in Illinois) have fallen over 78%. The decline in switched access minutes cannot be explained by just the loss of AT&T Illinois residential access lines. It is most likely the result of residential consumers using their cell phones or the Internet to make these calls, rather than using their AT&T Illinois landline residential phone. Table 5 shows the dramatic increase in wireless usage. Since 2000, wireless usage has increased over 850 percent.

Consumers continue to increase their use of mobile telephones for both voice and data services. Partly because of the prevalence of mobile service packages with large buckets of inexpensive minutes, the average amount of time U.S. mobile subscribers spend talking on their mobile phones rose to 783 minutes per month in 2006. This usage is more than five-times the average usage of mobile

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subscribers in Western Europe and Japan.²⁶ Table 12, from a UBS Global I/O Wireless Services report dated January 17, 2007, highlights that the United States has among the lowest wireless phone rates in the world. The average price per minute in the U.S. is 15% - 20% of European and Japanese prices. Therefore, wireless phone service is far more affordable in the United States than in other developed countries, which contributes to both the wide availability of the service and the high level of usage of wireless phones in the United States. Wireless rates per minute are also forecasted to continue to drop, making wireless an even more competitive alternative to wireline service.

Table 4

AT&T Illinois Total Company Switched Access - Minutes of Use (2000 - 2006) (000's)					
Year End	MOU	Annual Change	Cumulative Change	Annual % Change	Cumulative % Change
2000	32,203,970				
2001	23,166,485	-9,037,485	-9,037,485	-28.1%	-28.1%
2002	19,044,614	-4,121,871	-13,159,356	-17.8%	-40.9%
2003	16,178,530	-2,866,084	-16,025,440	-15.0%	-49.8%
2004	16,495,950	317,420	-15,708,020	2.0%	-48.8%
2005	16,241,310	-254,640	-15,962,660	-1.5%	-49.6%
2006	15,365,227	-876,083	-16,838,743	-5.4%	-52.3%

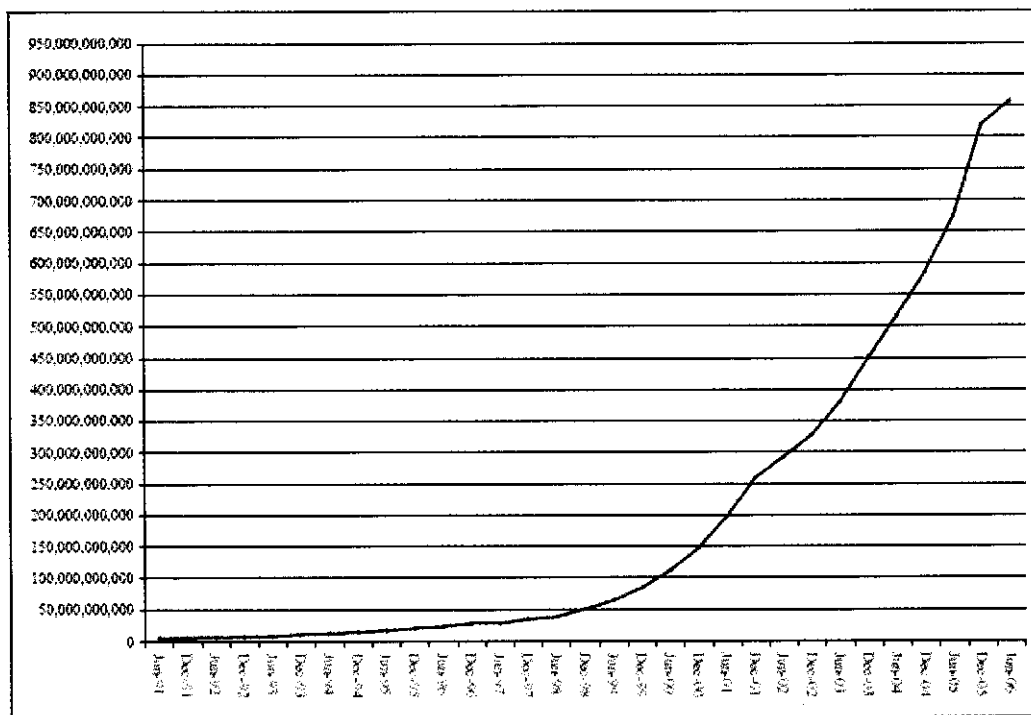
Table 4A

AT&T Illinois Intrastate Switched Access - Minutes of Use (2000 - 2006) (000's)					
Year End	MOU	Annual Change	Cumulative Change	Annual % Change	Cumulative % Change
2000	10,402,550				
2001	5,171,493	-5,231,057	-5,231,057	-50.3%	-50.3%
2002	3,004,822	-2,166,671	-7,397,728	-41.9%	-71.1%
2003	2,466,118	-538,704	-7,936,432	-17.9%	-76.3%
2004	2,788,098	321,980	-7,614,452	13.1%	-73.2%
2005	2,532,436	-255,662	-7,870,114	-9.2%	-75.7%
2006	2,246,836	-285,600	-8,155,714	-11.3%	-78.4%

Sources for Table 4, Table and 4A are from the ARMIS 43-08 Reports, Table IV.

²⁶ UBS Global I/O: Wireless Services, Table 11 dated January 17, 2007 at page 40.

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Table 5

Source: CTIA's Wireless & Wireline Industry Comparison Report MID-YEAR 2006
Results RELEASED NOVEMBER 2006

The Yankee Group, from its 2002 to 2006 Technologically Advanced Family Surveys (TAF), states that consumers are growing more accustomed to using their wireless phone in place of their landline phone. The Yankee Group states that 51% of all local calls and 68% of all long distance calls in households with wireless service are made using their wireless service.²⁷ Therefore the wireless phone, a device that was developed for consumers when they were outside the home, has found its place inside the home and has become a more convenient device than the wireline phone for many households. The Yankee Group TAF survey found that 41% of all wireless calls were made inside the home.

Tables 6 depict the wireless revenues and their growth. Since 2000, nationally, wireless service revenues have increased by over 160%. This Table also can

²⁷ *Id.* Exhibit 2, at page 4.

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derive that since 2000 wireless carriers in Illinois have increased their revenue by \$3.1 billion.²⁸

Table 6

Wireless Industry Total Service revenues (6/1999 - 6/2006)					
July 1 to June 30	Industry Wireless Revenues	Annual Change	Cumulative Change	Annual % Change	Cumulative % Change
2000	45,295,550				
2001	58,726,376	13,430,826	13,430,826	29.7%	29.7%
2002	71,117,599	12,391,223	25,822,049	21.1%	57.0%
2003	81,185,272	10,067,673	35,889,722	14.2%	79.2%
2004	95,515,593	14,330,321	50,220,043	17.7%	110.9%
2005	108,534,727	13,019,134	63,239,177	13.6%	139.6%
2006	118,299,682	9,764,955	73,004,132	9.0%	161.2%

Source: CTIA Semi-Annual Wireless Industry Survey, Annualized Wireless Industry Survey Results – June 1985 to June 2006

Nationally, over \$200 billion has been invested in wireless carrier capital investment, not counting private wireless networks and not counting the \$24 billion wireless carriers invested in acquiring spectrum. In the past few years, wireless companies have been spending about \$20-\$30 billion in annual additional investment²⁹. To put it another way, wireless carriers are spending over \$2 billion a month in additional investment in their networks. The wireless industry is also creating new applications like e-mail, digital photographs, SMS (text messaging), MP3 player, video and voice messaging, location capability, Internet browsers, and contacts and calendar functions. They are also adding entertainment and games to increase demand for wireless phones and usage. Wireless subscribers are also comfortable with the wireless E9-1-1 service, which is in wide use, with over 224,000 E9-1-1 calls from wireless phones each and every day (*i.e.*, over 1.5 million per week or 75-80 million calls per year). To improve service quality and reach wireless carriers have added cell sites. Wireless carriers had 197,576 cell sites in June 2006, up from 178,025 in June 2005, for an increase of about 20,000.

²⁸ The Illinois wireless number was derived by taking Illinois wireless growth from Jun '00 to Jun '06 (5,230,460) and dividing it by wireless growth from Jun '00 to Jun '06 (122,384,532) and multiplying that result by the change in revenue since June 2000 (71,610,608).

²⁹ CTIA's Wireless & Wireline Industry Comparison Report MID-YEAR 2006 Results RELEASED NOVEMBER 2006 at page 7.